

# ATLANTIC PERSPECTIVE

A year-end review of  
economic conditions  
in 1985 with an  
outlook for 1986



Prepared by

**APEC**  
atlantic provinces  
economic council

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# 1985 IN REVIEW:

## The Morning After

The American economy set a red-hot pace in 1984 and into early 1985, and the Canadian economy benefited. Total exports to U.S. markets in 1984 were about one-third higher than in 1983, and gross national product surged ahead by almost 5%. Two of the Atlantic provinces (New Brunswick and Nova Scotia) recorded growth in excess of the national trend, a third (Prince Edward Island) clocked in at 4%, while Newfoundland registered a 2.1% increase.

Almost universally, 1985 has been a year of deceleration. There has been growing concern in the United States over the size of two deficits (on visible trade, and on the federal budget), and not even this giant industrial machine could sustain the pace it set in 1984, when growth in real GNP was in the order of 7-8%. The forecast for the United States in 1985 runs at a much more modest 3% or so. Even this is stronger than anticipated.

Two other things in the American economy in later 1985 deserve mention. Firstly, the dollar has fallen back from the giddy levels of 1984 and early 1985 (although not much against the Canadian dollar). Indeed, concern over the distortionary effects of a strong U.S. dollar has become sufficiently strong that the five principal economies of the Organization for Economic Cooperation and Development (the United States, West Germany, France, Japan, and the United Kingdom) have agreed to cooperate to depress the dollar further. This is bound to affect the performance of Canadian exporters in this important market.

Secondly, a flood of imports has eaten into American industry's domestic market, and this has been accompanied by a surge of demands for a degree of protectionism from these imports. In the Atlantic context, this has affected, or may affect, hogs and pork, lumber, saltfish, and fresh groundfish. Even those with a cursory familiarity of the region's economy will appreciate the gravity of these threats.

### Provincial Details

Canada's economy grew by a little less than 5% in 1984, and this is predicted to come down to about 3 to 4% in 1985.

Of the four provinces, Newfoundland in aggregate has not benefited much from decent national or regional paces in 1983 and 1984. This is not to say that two of the three or four most important goods-producing industries (excluding services) did not do well. Both the iron ore mines and paper mills posted excellent records in 1984, and have more or less matched the national pace in 1985. The fishery, however, continues to suffer from reduc-

tions in stocks, and confusion in the processing sector. This spells times of reduced and uncertain incomes in many isolated communities, and is sufficient to drag the entire economy down. In spite of a decent record in retail sales over the first eight months of 1985 (up about 8% over 1984), growth in gross provincial product in 1985 will only be about 1 to 1.5%, down from 1984's 2 or 2.5%. High unemployment remains a particular worry.

It only takes a good potato harvest, lobster catch, or tourist season every second or third year in Prince Edward Island to provide sufficient margin for the provincial economy to do very well. 1984's credible increase of a little over 4% was due to early-year sales of potatoes from the 1983 crop. As well, lobster fishermen spent their gains from the 1983 catch, and progressive staffing of the new Department of Veterans Affairs offices in Charlottetown promoted a good degree of household formation and, in consequence, residential construction.

House building was also booming in 1985, and large projects are giving the construction sector a very good year. Lobster catches have exceeded those of 1984, and have even surpassed the records of 1983. And tourist visitation has increased in 1985. Potato growers however, had a middling year, and this will hold overall progress back. In spite of this, the Island economy will probably do quite well in 1985. Already, the Island's unemployment rate is lowest in the region. Growth at about 3% is predicted.

Nova Scotia must adjust to a slower pace of offshore activity, at least for a little while. The demise of the Petroleum Incentives Payments (grants to assist offshore exploration) and continued problems with the Venture Field are effectively removing two principal components of recent provincial performance. Other sectors, however, are doing very well, especially the fishery and residential construction. Retail sales have been surprisingly strong (about 14% higher over the first eight weeks of 1985 compared to the same period of 1984), and manufacturing shipments have declined only marginally (5% or so to July).

Nova Scotia's relatively diversified economic base will stand it in good stead, however. A new aero engine plant is being built near the Halifax airport, and the province's exports of end products (ready for consumers or industrialists to use) is taking up an encouragingly higher proportion of total exports. Job creation could be better. Growth in 1985 will approach, but probably not exceed, national averages — probably around 3%.

Low prices for New Brunswick's main resource products will certainly see a slower pace in 1985 from 1984's impressive 5%. Not even the big-frigate-building program in Saint John can carry an entire provincial economy, and a reasonable pace demands performance from forest products and the province's mines. In a sense, a good year in 1984 would have been difficult to match even in the absence of a general cyclical downturn in 1985. Residential building has been strong (especially in apartments, taking advantage of the dismantling of rent controls) and electricity exports have excelled.

There is also a new coated paper mill being built in the Miramichi, a good number of major projects under way in other parts of the province, and now there are two producing potash mines near Sussex. The province's economy will probably rebound strongly once export demand picks up. 1985 will see advances in the order of 2.5-3%.

### NOTE

The information in this supplement has been prepared by the Atlantic Provinces Economic Council. It was submitted for publication in late October, and contains the most recent information available. Events frequently conspire to overtake even the most thoughtful analyses, however, so please bear this in mind as you read the supplement.

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# THE FISHERY:

## The Rocky Road to Revitalization

Crisis has not been a stranger to the Atlantic fishery, and 1985 was no exception. While some encouraging signs were evident, the Atlantic fishery remains troubled. The industry's problems have a familiar ring; stock and quota problems, interprovincial squabbling, market difficulties, international conflicts, and the Newfoundland fishery in general.

The news is not all bad, however. After groping in the dark for most of this decade, the industry seems on the verge of better things. This opinion is based on the dramatic improvement in the financial health of several companies, led by National Sea Products Limited, and the observation that the Newfoundland fishery has likely bottomed out and is due for improvement.

### Rating The Restructuring

Reviews of the 1983 restructuring of major Atlantic fish companies are mixed. Predictions that National Sea would only prosper in private hands have apparently been borne out by improvements in company ledgers to the end of June 1985.

In contrast, Newfoundland's Fishery Products International Limited, formed from the remnants of seven failed companies, is expected to lose \$25 million in 1985. In this case, it was clear from the outset that the new company, 88% government owned, was seriously underfunded and a second round of restructuring would be needed.

This process began in early fall, 1985 with the release of FPI's 5-year business plan and the commitment of a fresh \$133 million by two levels of government. A major aspect of this second stage of the restructuring process is the "privatization" of fifteen of the company's inshore plants. Eight of these are owned and seven are leased. The company plans to operate the plants until they are sold, in concert with its social mandate, and no decision is expected on the future of any unsold plants for two years. The new business plan combined with apparent long-term labor peace is cause for some optimism.

### Industry Performance 1985

One measure of success in the fishing industry is the value of landings reported. In this regard, 1985 results are mixed. Preliminary figures for Nova Scotia show an encouraging upward trend for most species. In particular, improving landings and prices for lobster and scallops have meant high returns for many South Shore fishermen.

The same level of success was not evident in Newfoundland. A six month strike by trawlers and plant workers meant



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a slow start to the offshore season. This, combined with a failure of the province's inshore groundfishery, has produced one of the poorest years in memory. The one-fifth drop in landings over the first seven or eight months has not only caused supply problems for plants but many fishermen and plant workers were left without the necessary "stamps" to qualify for unemployment insurance.

New Brunswick fared little better. Plant workers in one crab processing plant, faced with a shrinking number of weeks worked, or a result of changing technology and lower catches, rioted in mid-April. New Brunswick fishermen also had to face the closure of salmon fishing and limitations to herring quotas.

Prince Edward Island's fishery, while small on a regional scale, is very important to the economy of the province. Another good year for lobster fishermen and the granting of crab licences to Islanders for the first time will mean good things for the provincial economy in 1985 and into 1986.

### Strong Markets But.....

A devalued Canadian dollar, improved demand and supply problems among competitors saw markets improve for most fish products in 1985. Although

prices for a few important species (crab and capelin) continued their recent downward trend, markets for most species improved.

A devalued Canadian currency has, in terms of the American dollar, been a boon to fish exporters in recent years. Markets improved even further beginning in late 1985 as the American and Canadian dollars slipped against most other world currencies. Countries, like Iceland, which maintained competitiveness through aggressive devaluations are now paying the inflationary price for these actions. Iceland, in particular, will be squeezed by this trend, in addition to growing stock problems.

Success may have a price however. The competitiveness of Canadian fish on American markets, (the destination of 80% of the region's exports) has brought charges of unfair trade practices from American fishing interests. The U.S. International Trade Commission is now investigating these complaints which claim that Canadian fresh fish exports (\$94 million in 1984) are unfairly subsidized by government. If the Commission's decision, expected in January or February, upholds these complaints and imposes duties, it is felt that the important frozen fish trade will be the next target. Any

threat to frozen markets means more of a threat to Newfoundland.

#### Growing Conflict

A disturbing tendency to confrontation in the fishing industry has become apparent in recent years. The burning of a fisheries patrol boat by southwest Nova Scotia lobster fishermen was followed by a so-called "crab riot" in Shippagan, New Brunswick early in 1985. Later in the year, Nova Scotia draggers blocked the entrance to Digby harbor to protest by-catch limits on pollock and haddock. Northeast New Brunswick herring fishermen fished illegally for four or five days in the year to back up demands for higher quotas.

This air of conflict was extended to the boardrooms of major companies, and into provincial offices, as a result of an application by National Sea Products to operate a freezer factory trawler. While National Sea feels that the extra quality from freezing at sea will help it maintain and expand markets, Newfoundland interests are unconvinced by the quality argument and feel that the exploitation of northern cod stocks by such a vessel would be at the direct cost of shore-based jobs in that province.

#### Looking Ahead

The first half of the 1980s have seen a disastrous period for the Atlantic fishery by any measure. While a number of positive signs were evident in 1985, such a market improvement and a return to profitability of National Sea Products, a number of problem issues must be overcome if this trend is to continue in 1986 and beyond. Attempts to impose countervailing tariffs on Canadian fresh fish exports could seriously damage Canada's position in the American market, should preliminary findings of subsidization of the Canadian fishing industry be upheld.

The Newfoundland inshore fishery must be stabilized. The development of a new mid-shore fleet being proposed by the Newfoundland government has possibilities in this regard. The recovery of the Newfoundland fishing industry also depends on the effectiveness of the second phase of the restructuring. Revitalization of the processing capacity and modernization of catching capacity together with continued quality improvements are keys in this regard.

It is clear that 1986 will be a critical year for the Atlantic fishery. While potential problems have the capacity to overwhelm the industry in the coming year, a continuation of the limited progress of 1985 could set a positive course for the rest of this decade.

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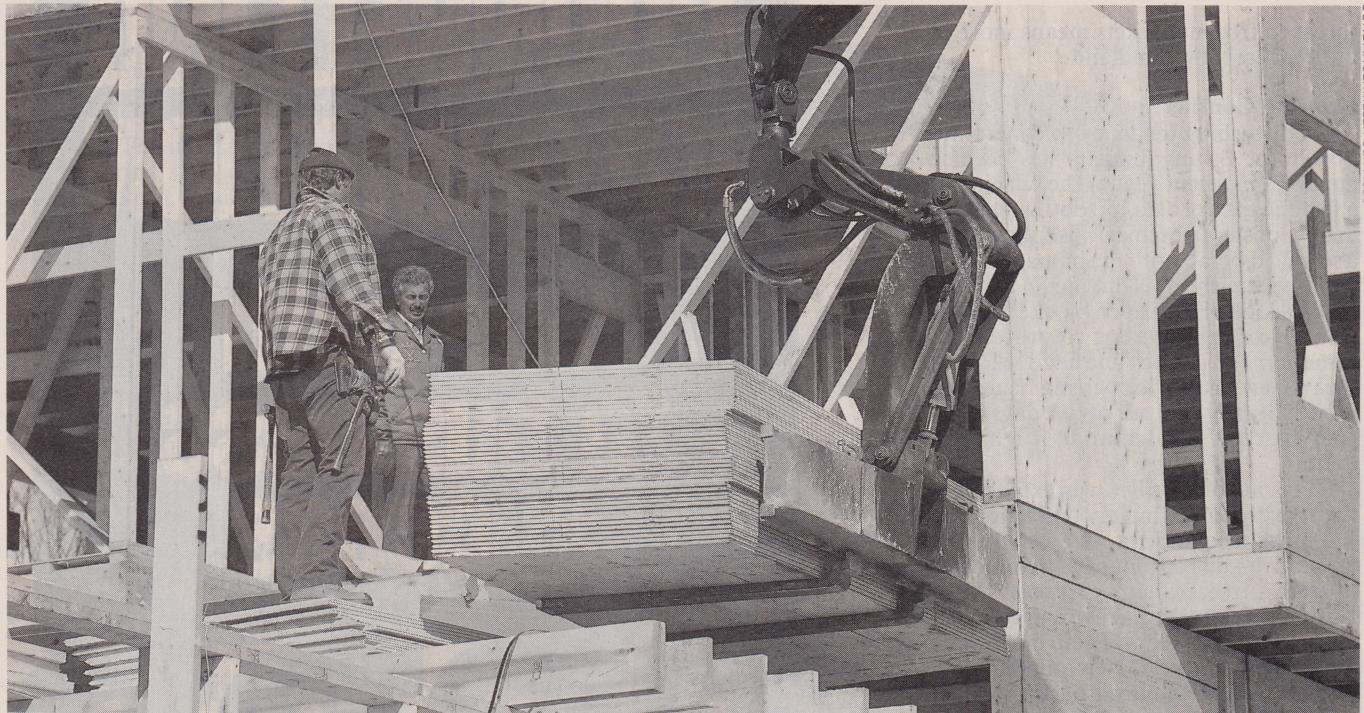
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# CONSTRUCTION:

## Homebuilding Booms



The first three quarters of 1985 have produced a surge in residential housing starts in all four provinces. Total starts in urban areas throughout the region were 50% higher in 1985 than in 1984, with the biggest percentage increases in New Brunswick and Nova Scotia. In part, this has been caused by stable and relatively low mortgage rates. As well, it reflects a poor 1984 for most of the region's home builders; it is significant that the lowest proportional increase was in Prince Edward Island, which had a good year in 1984.

There are interesting details emerging in this boom between the provinces. The principal activity in Newfoundland is in single-family detached dwellings, while multiple-unit dwellings assume more importance in the other three provinces. In Prince Edward Island, this reflects apartment construction in and around Charlottetown, where arrival of Department of Veterans Affairs staff has apparently stimulated a higher degree of household formation. As well, several senior citizen complexes have been built on the Island.

New Brunswick is in the first year of no rent controls, and this has undoubtedly provoked a faster pace of apartment construction. Activity in Fredericton is particularly noticeable in this respect. Rent controls are still in effect in Nova Scotia, and there is little doubt that this has caused, in great part, a housing crisis in the Halifax area. Vacancy rates are consistently below 1% in many parts of the metro area.

Another phenomenon underlying multiple unit starts in Nova Scotia has been an explosion of expensive condominium developments. There are, indeed, indications that too many units are coming on the market in a short time, and sales have been less than expected.

### Commercial Space Growing

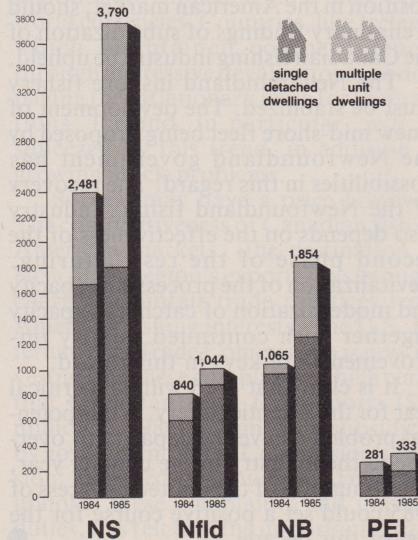
Halifax has also seen a rapid pace of commercial developments over the past couple of years. This has mainly been office space in the downtown area. There are mixed feelings about this. Some say that supply is far outpacing demand, especially when slower economic times loom. Others say that the city has reached a point where it generates self-sustaining progress as a regional centre. As new space has come on the market, it has been taken up at an encouraging pace. Some of the first generation of high-rise office buildings, however, are losing tenants as the competition heats up.

There are many other projects underway throughout the region. St. John's especially is blessed in 1985 by starts of three big complexes (either offices or a hotel and convention centre) after several years of uncertainty. As Hibernia looms, so do much better times for Newfoundland's construction sector. New Brunswick has the usual array of new developments, from the forest research complex in Fredericton, to shopping mall expansion in Moncton, and mine and mill works elsewhere. And Prince Edward Island has seen work on the Veterinary

College proceed rapidly to its peak.

Although it is doubtful whether Atlantic builders will get back to the levels of activity of the late 1970s, 1985 certainly turned into a tonic for them. There still is the prospect of big contracts coming from offshore development. A slimmer sector is well placed to benefit. ●

### HOUSING STARTS IN CENTRES OF 10,000 POPULATION AND OVER BY TYPE ATLANTIC CANADA



SUNDANCE/MILLER SERVICES

SOURCE: STATISTICS CANADA

## More Diversity

There is little doubt that the boom years for Canadian mining have slowed a little. New products from the Third World have eaten into traditional markets, new materials such as plastics have taken over some uses normally fulfilled by metals, and recycling has become a sophisticated industry.

In the midst of these trends, Atlantic mining is still going strong. There are two new mines in New Brunswick, and one in Nova Scotia, and older mines have reopened in New Brunswick and Newfoundland. These openings and reopenings involve new products such as potash, tin, antimony, and fluorspar. These are added to the traditional strength of the region's mining sector, based on iron ore, lead/zinc, and coal.

### A Middling Year

Having said this, 1985 has turned out to be a so-so year in the mines. Commodity prices in general are down in the wake of a slower economic pace. The slowdown has not been as radical as expected, however.

Shipments of iron ore from Labrador to July were only 3.8% lower than in 1984, and stockpiles were lower. Most of the credit for this goes to export sales which were almost 10% higher. Spot market sales have been particularly brisk.

Zinc is another matter, and New Brunswick's one big mine has scheduled a year-end closure for a couple of weeks to allow stockpiles to go down. Demand for zinc for the mines is more solid and faster to rebound than for other base metals, however, as it is difficult to recycle. Just a modest increase in demand will set prices increasing again.

Nova Scotia's new tin mine produced its first concentrate in October. The timing is a little dubious, as world tin prices are the lowest in years, but the mine's proximity to the important American market gives it an advantage. It is an important development for western Nova Scotia, and there is by-production of copper and lead.

Rio Algom, who developed the tin mine, is also in the final stages of buying Potash Company of America, including its New Brunswick operations at Penobscot. There have been some production difficulties at the 2-year-old mine, which may require further investment spending. A second mine at nearby Cassidy Lake (developed by Denison-Potacan) shipped its first output in October 1985. Production of this new mineral is a most welcome diversification of New Brunswick's mining industry, and there are distinct prospects of a third mine in the Sussex area.

The Old Lake George antimony work-

ings near Fredericton have been given a new lease on life by sinking a shaft to work a new ore body. The old ore body was worked out, and the mine closed in 1981. Its reopening partly compensates that particular area of New Brunswick for closure of the Mount Pleasant tungsten-molybdenum mine due to technical problems and low prices.

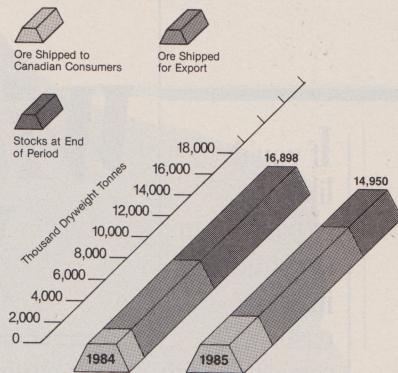
Coal output in Cape Breton has pleasantly surprised most people by staying more or less in line with 1984 in spite of loss of production from the Number 26 colliery. The high grade metallurgical coal for Number 26 has been replaced, at least in part, by coal from other mines. This has allowed resumption of important export sales.

### The Potential Increases

Total mine output in 1985 will not surpass 1984 because 1984 was so good. Unfortunately, 1986 may see a further deceleration in overall economic activity, which will certainly affect Atlantic mining jobs. The region can put trust in the health of the sector, however. Future developments will probably involve new

### LABRADOR SHIPMENTS OF IRON ORE

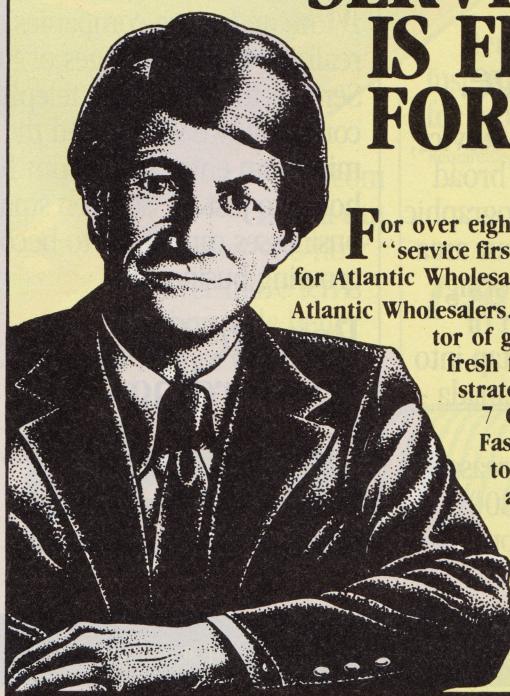
(January to July)



SOURCE: ENERGY, MINES AND RESOURCES

gold mines in Newfoundland (an important ore deposit was identified near Port aux Basques in 1985), Nova Scotia (Seabright Resources has awarded a contract to build a shaft at its Forest Hill property), and northern New Brunswick (at various points in a rich area of mineralization).

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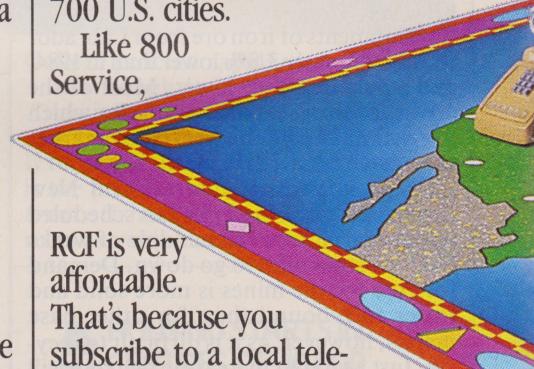
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# EXPORT TRADE:

## The Rules Stiffen

In the complex arena of world trade, the mid-1980s are bringing their own set of complications. As the decade began, there were reasonable expectations that the Tokyo Round of the General Agreement on Tariffs and Trade would effectively lower trade barriers smoothly up to 1987. By this time, a new round of multilateral trade talks would have begun with the intent of lowering barriers to trade even further.

This part of the universe is, indeed, unfolding as it should. Another part, however, has taken people by surprise—the rise of protectionist sentiment. In 1985 in the United States, this reached fever pitch. A very strong dollar in 1984, coupled to a very strong economic performance, saw the United States run up an impressive deficit on visible trade. Import of Canadian products such as lumber and live hogs began to displace American production at an alarming rate. Reaction was rapid, with U.S. interests clamouring for measures of protection against what they claimed was unfair competition. Fish products entered the equation, too, with Canadian saltfish entering U.S. markets now subject to an import duty. Fresh groundfish are also threatened.

It is easy to understand American concern in one respect. Total Canadian merchandise exports in 1984 were valued at \$112.5 billion, up from \$91 billion in 1983. Some 76% of the 1984 exports went to American markets. Atlantic exports to these same markets were valued at almost \$3 billion in 1984, or 60% of total Atlantic exports; proportionately more goes from Atlantic Canada to European markets.

### The Free Trade Debate

This high degree of dependence on U.S. markets is disconcerting and is the principal reason for Canada seeking to get a degree of security of market access in the form of free trade with the United States. A formal request to begin negotiations between Ottawa and Washington came in September 1985.

The prospect of free (or freer) trade engenders mixed feelings. Many non-resource-based manufacturers are apprehensive at the possible flood of American imports to meet local demand currently satisfied, in part, by local production. Resources stand to benefit, as almost by definition initial extraction and processing must occur at the location of the resource itself. These products currently enter the United States at a very low average tariff, however, and any gains from free trade will come from dismantling non-tariff barriers, a much more difficult prospect.

Almost lost in the free trade debate, however, is the intensified competition facing some of Atlantic Canada's most important products. Pulp and paper production, for example, now comes from many Third World countries, as well as highly efficient Scandinavian mills. Exchange rates have favoured these producers in 1984 and 1985, and have made it difficult for Atlantic mills to stay competitive.

Exporters also faced barriers inhibiting access to important European markets. The European Economic Community exists explicitly to promote intra-community trading, which is often achieved behind a wall of tariffs and quotas. As well, the EEC has a free trade arrangement with the countries of the European Free Trade Association, which includes preferential access for forest products from Sweden and Finland, and fish from Iceland.



DAVID NICHOLLS

### 1985 in Review

In line with overall economic activity, Atlantic exports slowed as 1985 progressed. Only in Nova Scotia has the cracking pace of 1984 been matched (but not exceeded) and this is particularly encouraging in that end products (auto tires, machinery and so on) have had the major gains. This important group of commodities has claimed a growing share of Nova Scotia exports. The drop in shipments for Newfoundland, however, is mainly because of lower exports of fish, and all of New Brunswick's principal resource-based exports have registered significant declines. Indeed, cargo exported through the Port of Saint John is more than 20% down over the first eight months of 1985.

Trade-related issues will hold centre stage during 1986 and probably beyond. The free trade debate will heat up, ironically in alternation with protectionist concerns and arguments. The central part that exporters play in the growth of the Atlantic economy is established. Discussion of this role is certainly justified in the mid-1980s.

## Definition and Assessment

Tourism is an odd industry. Unlike other sectors which produce paper, or motor cars, or iron ore, it does not produce tangible product. Nor, you might say, do most services. Except that tourism does not have the well-defined edges that most services can claim — it spreads over many other industries such as the hotel trade, store keeping, restaurants, arts and crafts production, and so forth.

Tourist attractions may also be considered an export, except that the consumers of these attractions (tourists) must travel to where the attractions are located in space to consume them. The only things they can take home with them to show for their spending are photographs, a sunburn, memories, and souvenirs such as scallop shells or lobster traps.

### Growth Industry

On one point there is little disagreement — it is one of the fastest growing industries of the late twentieth century, and every corner of the world wants a piece of the action. Atlantic Canada has more than a vested interest because all four provinces are already important tourist destinations in the traditional sense. The new breed of tourism, however, can be much more lucrative as it can involve people seeking new experiences in new places. Usually, these people are willing and able to pay more and spend more to fulfil their dreams.

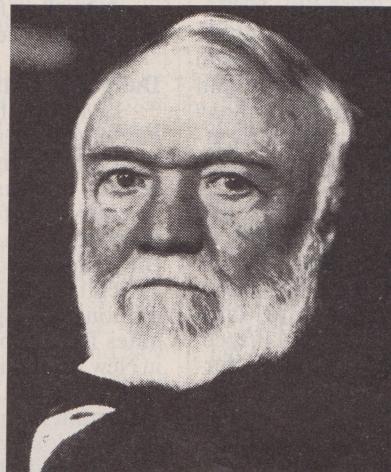
It is encouraging to note, therefore, that the Atlantic industry is adapting to these new ideals quite successfully. The hotel and convention trade has become very important in larger urban centres, with specialized buildings in places like Saint John, Halifax, and Charlottetown, and a new one to be built in St. John's. Specialist tourist attractions have emerged, such as whale watching in the Bay of Fundy, helicopter rides to see baby seals on the ice of the Gulf of St. Lawrence, fishing trips to Labrador, or bird watching tours to small islands. (Actually, tuna boat charter operators have known about the opportunity this offers for many years, and still draw well-heeled clients from all over North America and Europe to angle bluefin tuna.)

The traditional base of the industry is also adjusting and improving constantly, as the explosion of such attractions as water-theme parks attests. In such diversification lies a reasonable degree of steady growth. If there is a big challenge, it is to spread the benefits of tourism out rather more evenly. At present, most activity tends to be concentrated in certain areas, and outlying regions are becoming rather more vocal in this regard.

### A Good Season

The 1985 season has been generally good for all four provinces, with main improvements in visitation coming from traditional origins such as Ontario, Quebec, and New England. A relatively low Canadian dollar still plays its part in this respect, both by attracting American visitors, and deterring Canadians from going south for vacation.

Some special events contributed, particularly the Canada Summer Games in Saint John. The success of hotel/convention centres has continued unabated. Even in Charlottetown, where the new Prince Edward Hotel was in receivership, it operated all summer at close to capacity. If this region's array of attractions continues to diversify, the tourist sector will certainly benefit. ●



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## Debt, Weather, and Trade Embargoes

There was a time when all farmers had to worry about was the weather and prices. These two were then joined by input costs. The mid-1980s have seen the number of worries increase yet further by addition of debt problems and trade restrictions.

New North American farmers are safe from debt problems. In part, this is due to a rapid increase in indebtedness in the late 1970s, a period when a farmer's principal collateral, his land, was valued highly. As surpluses of food and grain have grown, however, prices and land values have plunged, and ability to repay had eroded. The problem particularly affects new, younger farmers who are struggling to maintain viability.

Maritime potato producers are familiar with American attempts to restrict their products from entering U.S. markets. These attempts have substantially failed, but potatoes crossing into Maine have been subjected to increased inspection at the border by U.S. officials during 1985.

### Hog Duties

Pork producers in Canada have been less lucky. During 1984 and into 1985, a low Canadian dollar saw great increases in exports of hogs to American packing plants. Exports in 1984 alone were almost four times the level of 1983, and the totals over the first ten months of 1985 were even higher than 1984's levels. U.S. pork interests successfully applied for import duties on the grounds that Canadian agricultural support policies provided a form of subsidy to Canadian farmers, and that this constituted unfair competition. A provisional duty was imposed in February 1985 to be confirmed in summer. The effects on hog prices were rapid and predictable — they went down.

Atlantic hog producers don't export animals much to American markets, but they do receive prices dictated elsewhere in Canada. Accepting this, it is surprising that Atlantic hog receipts were down by a relatively modest 6% over the first eight months of 1985. There were some better prices early in 1985, however, and annual totals are likely to show a more profound decline.

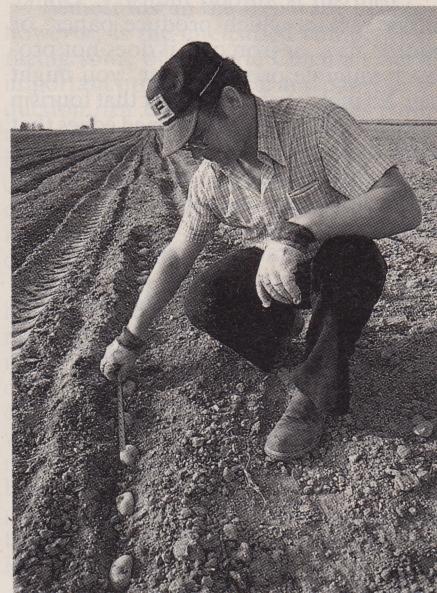
Total receipts were down by 3.4% over the same period, exclusively due to lower receipts for potatoes in Prince Edward Island and New Brunswick. This reflects more the great success of the 1983/84 crop year (which ended at June 30, 1984) than an average performance in 1984/85. The 1985 crop was not good, and good crops elsewhere meant low prices. The area to be planted in 1986 may decline as a result.

Other important cash crops (those

grown for sale off the farms rather than for on-farm use) are also having difficult years. Tobacco growers, already under voluntary area quota systems, are suffering from declining markets as more people stop smoking. Blueberry growers had the fourth record crop in a row, and suffered subsequent lower prices and increases in stockpiles. A high Canadian dollar, as well, deterred sales to European markets. Tree fruit producers have gone through a series of average years.

### Dairy and Cattle

Livestock farming is dominated by dairying. Prices received by farmers, and therefore receipts, are set by boards to reflect increasing input costs. Total receipts, therefore, usually show modest increases from year to year. Dairying is the single most important type of agriculture in Nova Scotia (worth \$51 million in receipts in August 1985), alternates for top place with potato receipts in New Brunswick, and is second in Prince Edward Island. Cattle receipts are quite important in the region, but have shown signs of losing ground as competition from outside beef intensifies. Poultry



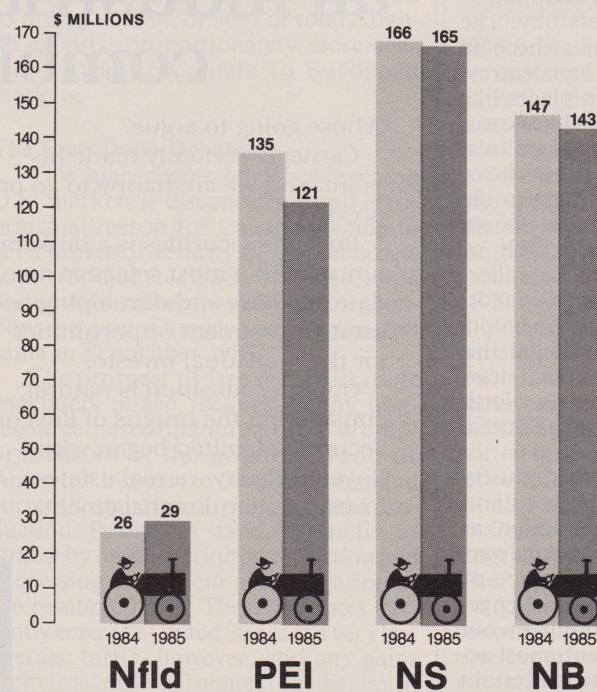
R. VROOMMILLER SERVICES

receipts in 1985 are higher than two years ago (reflecting the success of chicken sales at fast-food outlets in North America), and have shown a slight increase also from 1984 levels.

SOURCE: STATISTICS CANADA

### FARM CASH RECEIPTS ATLANTIC CANADA

(January to August—Thousands of Dollars)



There is no doubt that the mid-1980s are bringing change to Atlantic agriculture. One trend will probably see more feed grain grown locally as a cash crop, partly in response to failure of western harvests. Farming in 1985 in Atlantic Canada involves much more than ploughing fields, tending animals, and taking in crops. It means managing debt, organizing to influence markets or defeat movements towards trade interference, and invoking science and technology to stay competitive. The success of farmers in doing all these things, and praying for right weather and good prices, dictates whether an important sector contributes to the overall regional economy.

## The Waiting Game

Offshore exploration has cushioned the Nova Scotia economy especially in 1982, and has stimulated exceptional years in 1983 and 1984. Newfoundland has benefited to a lesser degree, and certainly not to the extent to offset disastrous years in other sectors, the fishery in particular. This pattern seems set to change now, with less attention on Nova Scotia, more on Newfoundland.

There are several reasons for this. For Nova Scotia, the end of Petroleum Incentives Payments (grants for frontier exploration) and the Western Accord have shifted attention back to western Canada. As well, confirmed commercial gas reserves off Nova Scotia have been disappointing, and make development marginal in view of soft world oil prices. Newfoundland will probably have less drilling activity for these reasons, as well, but the fact that the provincial governments signed the Atlantic Accord, and that Hibernia is a substantial oil reserve, are in their favour.

Indeed, Mobil filed its Environment Impact Statement for Hibernia in mid-1985. This is another big step forward towards development, and incorporates a fixed platform production system rather than one which floats. This is more expensive, but involves more jobs during

construction, and permits the company longer-term production. Two locations on the Avalon Peninsula have been identified as platform construction yards, and site preparation is proceeding.

The difference, perhaps, between Nova Scotia's gas and Newfoundland's oil can be summed up by two numbers estimated by the Canadian Petroleum Association. They say that Canada has reserves of conventional oil (excluding frontiers) to last less than 11 years in 1984, but almost 40 years supply of natural gas. This second figure excludes East Coast Reserves and does not take account of a situation of similar proportions in American gas reserves.

### Electricity

It appears that a big phase of electrical projects has ended in Atlantic Canada. The late 1970s and early 1980s saw big nuclear works in New Brunswick, new thermal stations in Nova Scotia and New Brunswick, and new hydro stations in Newfoundland. Attention has now turned, it appears, to modernization of existing stations (from oil to coal, for example) or to experiments with new types of fuel such as liquefied coal or a coal-water substance called Carbozel.

Liquefied coal, in fact, is drawing more

and more attention as a pilot project to produce synthetic oil from Cape Breton coal advances. And a new boiler costing \$33 million at the Chatham generating plant in New Brunswick will test technology for the clean burning of high sulphur coal, or of Albert County's oil shales.

### Costs Still High

Parts of Atlantic Canada still have the country's highest electricity costs, especially Prince Edward Island. The province draws most of its supplies from New Brunswick, and thinks it is paying too much for these supplies. A series of rather complex court cases and hearings has supported the Island's claims, but this rather acrimonious dispute is not yet resolved. Islanders did get a break in September 1985 when a federal-provincial agreement was signed to subsidize electricity prices. Residents and industries will see power bills go down by about 20%.

Energy developments in Atlantic Canada still retain a special sexiness, whether they involve offshore oil and gas or exports of electricity from New Brunswick to New England. They remain important to the regional economy, and there will be more attention placed on them in coming years.

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## Overcapacity and Trade Wars

Lumber production has changed rather drastically since the recession. Then, many smaller mills closed down never to reopen. Production has become concentrated in big, automated sawmills which are frequently integrated with pulp mills as suppliers of wood chips. As with pulp and paper sales, New Brunswick's lumber sales have been quite strong in the early part of 1985. This reflects buyer wariness in the U.S. that import quotas may become a reality, and also a good pace of housing starts on both sides of the border. Nova Scotia sales, however, have declined.

Pulpwood production over the first seven months of 1985 reflects underlying trends in the processing sector — it is up only marginally, or is down in the three main producing provinces. As mill inventories accumulate, the winter's activities in the woods will be reduced accordingly. This will be aggravated by reduced capacity in Newfoundland (as already noted) and in New Brunswick (either by shutdown, or forced by strike at one of the province's big mills which began in June). Industry gains in 1986 appear precarious.

The balance of the twentieth century will be an interesting time for Atlantic

urgent challenges.

Firstly, world pulp and paper-making capacity is still expanding. Competition is becoming more intense as new producers (such as Brazil and South Korea) enter the fray. Established producers (such as Scandinavia) manipulate their exchange rates to increase sales to American markets, and exploit free trade arrangements in European markets.

Secondly, there are strident calls for quotas on Canadian lumber entering U.S. markets. Exports to these markets increased greatly during 1984 when the Canadian dollar was low. American sawmills were faced with closure, and drastic steps have been taken to pass laws in Congress to limit the Canadian imports. This is

probably the most serious attempt yet to restrict this trade.

Thirdly, there is still the looming problem of wood supply which will become intense by 2000. Insect infestation still affects millions of hectares, an uneven age pattern of trees means relatively fewer which are of harvestable size, and silvicultural management, by and large, has been sorely lacking. Given the length of time it takes for a tree to grow in the Atlantic region, shortages in tree supply may force mill closures.

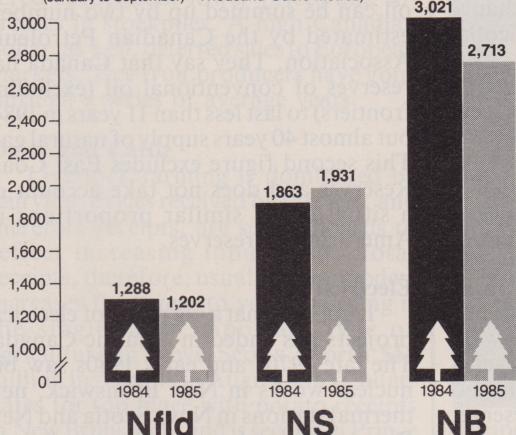
### Slowdown in the Second Half

Still, both pulp and paper and lumber sectors performed very creditably in 1984 and into the early part of 1985. Paper producers, indeed, tried implementing increases in newsprint prices several times in 1985, but all failed. By the end of the year, indeed, a price rollback was indicated. This is mainly because buyer inventories have been run up in anticipation of higher prices, and demand is subsequently much weaker. Little improvement is foreseen in 1986, and New Brunswick's mills will suffer especially.

One bright spot in New Brunswick, however, is the construction of a new coated paper mill on the Miramichi, which will be supplied with pulp from two existing mills nearby. More diversity in higher value paper products gives Nova Scotia's mills a better degree of insulation. One of Newfoundland's three newsprint mills is undertaking a timely modernization program, so reduced output was already expected.

### PULPWOOD PRODUCTION ATLANTIC CANADA

(January to September) — Thousand Cubic Metres



SOURCE: STATISTICS CANADA

forest products. This is the single most important industry in the region, contributing many thousands of jobs in three out of four provinces. It faces intense and

probably the most serious attempt yet to restrict this trade.



MICHAEL SAUNDERS/MILLER SERVICES

# THE OUTLOOK:

## What of 1986?

The nature of business cycles is that they are quite long, and once a trend is established and gathers impetus, it takes some time to change direction. Market forces aside, a newish federal government seems bound and determined to wrestle a massive spending deficit to the ground. In Atlantic Canada, there is proportionately greater dependence on government spending. Heartbeats flutter that much more, therefore, when spending cuts loom.

Market forces are also being modified by other institutional threats, especially trade barriers which may affect lumber and fish exports to American markets. Atlantic exporters also rely relatively more than other parts of Canada on selling to Europeans, and there is already a formidable array of barriers and keen competition surrounding these markets.

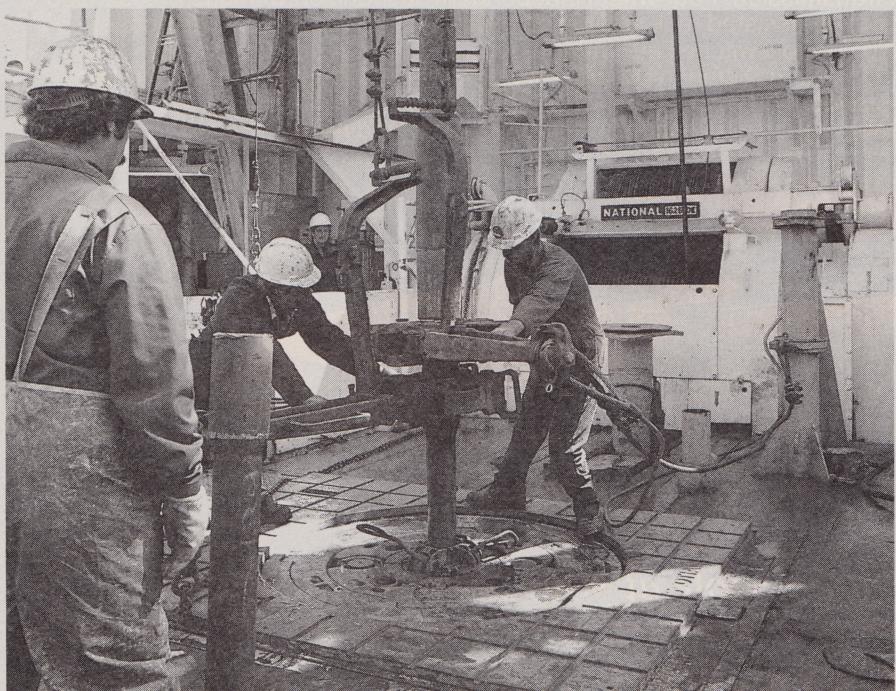
International and national economic performance will have their effects on regional economic activity. In the United States, the general slowdown in 1985 will probably extend into 1986, enhanced by passage in Congress of a substantial package of deficit-reduction measures. This initiative, indeed, may negate signs of a slight quickening of the pace towards the end of 1985. This quickening of the pace itself has rather surprised most forecasters, and may indicate that bottom has been reached. Whether 1986 will see an upturn is less certain. American growth in the order of 2.5% to 3.5% is likely.

In Canada, there were mixed signals

as 1985 ran down. There have been definite signs of a better pace of investment spending. This will especially benefit the western provinces and southern Ontario. If this is sustained, it would be sufficient to give the national economy a boost in 1986 over 1985. This would, however, require reasonably strong demand in the United States. The national economy may match its 1985 pace, but more probably will fall slightly short of this at about 3%.

The same reasoning applies also to New Brunswick and Nova Scotia, where a further deceleration is anticipated for 1986. Nova Scotia will grow by a rate of about 2%, New Brunswick by about 2.5%. Prince Edward Island, always marching to a different beat, will derive some benefit from a decent 1985 which will carry it into 1986, although final figures, as always, rely proportionately on summer weather and fish stocks. The province could advance by as much as 2.5%.

Newfoundland could either plod on its weary way in 1986 or could break into a trot. Much depends on the timing of development of Hibernia. Certainly, the medium-term outlook for Newfoundland (up to 1990 and 1995) is brighter than for several years, based on this one important project. As well, the fishery would be hard-pressed to do worse in 1986 than in the previous 2 or 3 years, — or have we heard that before? At worse, 1986 will bring a slightly better pace (about 2%), at best it could do much better than this. Keep your eyes on the price of oil. ●

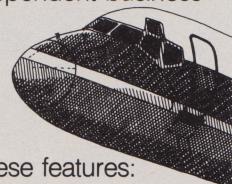


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